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THE FEDERAL BUDGET AND THE CITIES

A Review of the President's Budget
for Fiscal Year 1988
October 1, 1987 to September 30, 1988

JANUARY 1987

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PREFACE

This report, The Federal Budget and the Cities, examines the President's proposed budget from an urban perspective. It begins with a general overview of the budget and then addresses the various federal functions that are present in the nation's cities.

The budget is the single most important federal document published each year. It is the vehicle for formulation of national economic and fiscal policy and represents the most significant and comprehensive collection of the priority decisions that the United States government makes in the course of the year.

The Fiscal Year 1988 budget comes at a time of continuing national concern with unemployment, illicit drug activity, public health threats, hunger and homelessness. It also comes at a time when many cities continue to experience deterioration of their infrastructures, and severe economic and fiscal problems. And this year, the deficit reduction target mandated by Gramm-Rudman-Hollings adds to the concern of urban leaders.

This budget analysis is prepared by the staff of the U.S. Conference of Mayors. The Conference, established in 1933, represents the largest cities in America -- those with populations of 30,000 or more. Judgements made in this analysis are based on policies adopted by the members of the Conference.

John J. Gunther
Executive Director
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January 6, 1987

OVERVIEW

While some positive points may be found in the Administration's budget proposal for Fiscal Year 1988, on balance it represents a short-term, short-sighted reaction to the federal deficit problem. More specifically, it is a budget proposal dominated by the arbitrary targets of the Gramm-Rudman-Hollings deficit reduction legislation, hemmed in by the Administration's inflexible commitment to escalating defense spending, and by its unwavering opposition to tax increases.

The Administration's proposal for FY88 projects $1.024 trillion in spending and $916.6 billion in receipts. The resulting $107.8 billion deficit is just under the $108 billion Gramm-Rudman-Hollings deficit target for FY88. The budget projections are based on economic growth assumptions of 3.1 percent in 1987 and 3.5 percent in 1988 (GNP growth in constant dollars). These assumptions are substantially higher than the estimate for 1986 (2.7 percent) and the projections of most private economists. Slower economic growth would cause higher spending and reduced revenues, resulting in a larger deficit than the proposed budget projects.

The FY88 proposal includes spending increases for defense and a number of other programs, but balances these with a $42.4 billion package of deficit reduction measures in order to meet the Gramm-Rudman-Hollings target. Spending cuts, including many cuts and terminations of urban programs, represent $18.7 billion of the deficit reduction in the package. $22.4 billion is derived from "revenue changes" which include new tax collection procedures, sale of federal loans and other assets, and more user fees -- but no tax rate increases or major new taxes. The remaining $1.3 billion represents reduced interest charges.

The Conference of Mayors has long recognized that the federal deficit must be brought under control and that the nation must maintain an adequate defense. The Conference has also acknowledged that in order to meet these goals without decimating domestic spending programs, increases in federal revenues -- through means other than the personal income tax -- must not be ruled out.

Members of the Conference of Mayors are responsible for planning for the future of their communities. They know that failure to make certain key investments now, whatever the pressure of the moment to hold back on those investments, is to compromise that future, to rob our children and grandchildren of their potential and their heritage.

From this perspective, the deficiencies of the Administration's budget proposal are clear, and they are serious.

- The Administration's proposal would continue the erosion of the federal/city partnership for community and economic development and maintenance of the urban infrastructure. It would again cut funding for Community Development Block Grants, mass transit and housing, would terminate Urban Development Action Grants and the Economic Development Administration, and would phase out construction grants for wastewater treatment plants.

- The budget proposes further spending cuts in the programs which invest in the future of our citizens -- in their education, their health, their safety, their preparation for employment. Postponing investments in these areas is particularly short-sighted; it will lead to higher costs in future years and for future generations. The budget also proposes cuts in many of the programs which provide income assistance and basic support services to the poor -- at a time when hunger, homelessness and poverty are increasing in many of the nation's cities.

- The budget continues the distressing trend of dumping federal fiscal problems on local government through changes in the tax code and other revenue measures; it imposes on state and local governments an additional $2.5 billion in mandated costs and revenue reductions in FY88. Cities have limited and frequently regressive tax bases, and are in danger of losing their capacity to finance basic services as they must cope with an increasing burden of federal mandates and federal encroachment on local revenues and financing tools. An increased capacity for leadership and action has developed because of the cities' partnership with the federal government over the past several decades; there is now a real threat that federal dumping of fiscal problems at the local level will cripple the ability of city governments to maintain this capacity in the years ahead.

Among the program proposals of particular concern in this budget document are the following:

- The absence of a General Revenue Sharing program in FY88.

- Rescission of $375 million from the current $3 billion FY87 budget for the Community Development Block Grant, and reduction of funding to $2.6 billion in FY88.

- Termination of the Urban Development Action Grant program in FY88, and rescission of all but $20 million of the current year's appropriation.

- Emphasis on vouchers for assisted housing, with no significant new housing construction.

- Termination of the Economic Development Administration with the rescission of $125 million of the current year's funding.

- A 60 percent cut in public transportation aid -- from $3.56 billion in FY87 to $1.37 billion in FY88.

- A one-third cut in wastewater treatment grants, and termination of the program by FY93.

- A $4.7 billion cut in Medicare in FY88, and the generation of $2.3 billion in new revenue, in part from mandatory coverage of state and local employees and increases in the Medicare premium level.

- A $1 billion cut in Medicaid payments for health care for the poor.
- No new funding for the Section 202 housing program for the elderly.
- Cuts in all three programs providing assistance to state and local governments under the Anti-Drug Abuse Act of 1986.
- A one-fourth cut in funding for education programs, primarily through the elimination of vocational education and major reductions in student financial assistance and loan programs.
- Current fiscal year rescissions of $332 million in the Job Training Partnership Act.
- Nearly $800 million in cuts in nutrition programs in FY88.
- Elimination of the Legal Services Corporation and the Work Incentive Program.
- Cuts in several income security programs for the poor, including Aid to Families with Dependent Children, totalling about $1.15 billion.
- Elimination of all programs providing direct financial assistance to state and local law enforcement agencies.

The shifting of federal revenue problems to local governments takes several forms:

- Extending Medicare coverage to all state and local employees is estimated to cost $1.6 billion in FY88.
- Repealing the exemptions from gasoline and other highway excise taxes is expected to cost local governments $600 million in FY88.
- Changing the basis for sharing receipts from mineral leasing and timber sales on federal lands from gross to net receipts would cost state and local governments an estimated $340 million in FY88.

The President's budget also contains several proposals to create or increase funding for programs of benefit to cities. Among these: a 28 percent increase for AIDS research and education; a $10 million increase in the Emergency Food and Shelter Program; the addition of nearly $100 million for acid rain research; the creation of a new $85 million demonstration program to reduce infant mortality through case management.

With this budget analysis as a base, the Conference of Mayors stands ready to work with the Administration and the new Congress on a federal budget that encourages, not discourages, the development of strong local economies throughout the nation. The Conference stands ready to work toward a federal budget that strikes a true balance between the needs of our citizens and the constraints of current fiscal policy.

KEY URBAN PROGRAMS

A 10 Year Perspective

(Budget authority in billions)

	FY78 Actual	FY88 Proposed
Community Development Block Grants	$3.6	$2.6
Urban Development Action Grants	.4	-0-
General Revenue Sharing	6.9	-0-
Urban Mass Transit	2.0*	1.4
Employment and Training	9.6*	3.4
Economic Development Administration	.5	-0-
Law Enforcement Assistance	.6	-0-
Clean Water Construction	4.5	2.0
	$28.1	$9.4

Total DECREASE in actual dollars -67%
Total DECREASE adjusted for inflation -80%

Assisted Housing (in units)	338,000	102,000

Total DECREASE in households assisted -70%

Defense	$117.9	$312.0

Total INCREASE in actual dollars +164%
Total INCREASE adjusted for inflation +56%

*Outlays

PROPOSED FY88 REDUCTIONS IN SELECTED FEDERAL-URBAN PROGRAMS

PROGRAM	CHANGE IN BILLIONS OF DOLLARS FY87 TO FY88
Community Development Block Grant	- .40
Urban Development Action Grants	- .23
HUD Assisted Housing	-3.90
Rental Rehabilitation Grants	- .13
Housing Development Action Grants	- .10
Economic Development Administration	- .19
Clean Water	- .40
Mass Transit	-2.10
Drug Enforcement	- .23
Juvenile Justice	- .07
Justice Assistance	- .04
Education	-5.50
Food Stamps	- .28
Child Nutrition	- .47
Medicare	-4.70
Medicaid	-1.30
Social Services	- .07
Legal Services Corporation	- .31
Work Incentive Program	- .10
Aid to Families with Dependent Children	- .32
Child Support Enforcement	- .15
Low Income Home Energy Assistance	- .60
Refugee and Entrant Assistance	- .09
TOTAL	-21.68

AGING

The Administration's FY88 budget requests a number of changes which will adversely affect programs that benefit the elderly. These include no new funding for the Section 202 elderly housing program; reductions in health benefits and increased out-of-pocket expenses in the Medicare program; reductions in aging research and training programs; and the folding-in of funds for nutrition and social services programs of the Older Americans Act with other human service programs.

- The FY88 budget provides no new funds for Section 202 elderly housing (with its accompanying Section 8 rent subsidy). Rather, the Administration will request that 2,000 units ($91 million of direct loan and $267 million for rent subsidy) of the 12,000 units funded for FY87 be postponed to FY88.

- The budget proposes that Medicare funding of $81.9 billion include a number of legislative and regulatory changes to reduce outlays by $4.7 billion and increase revenues by $2.3 billion. These proposed actions include: a delay in initial Medicare coverage ($295 million); reduction in physicians' fees ($200 million); repeal of a number of new services provided in the Omnibus Reconciliation Act of 1986 ($323 million); and an increase in Part B premiums ($571 million).

- The budget proposes that funding for Older Americans Act programs be included within the proposed Social Services Discretionary Programs to be funded at $2.2 billion, a $69 million reduction below the current FY87 level. While the budget does not specify the funding level for each of the 26 programs of the proposed consolidated funds, it anticipates the transfer of $12.5 million (which is half of FY87 funds) for aging research and training. Older Americans Act programs up for reauthorization in 1987 were appropriated in FY87 at $725 million; these include: support services and centers ($270 million); congregate meals ($348 million); home-delivered meals ($74 million); and training and research ($25 million).

In 1986 the Census Bureau reported that the number of persons aged 65 or older living in poverty had increased 126,000 (3.5 million in 1985 compared to 3.3 million in 1984), representing the highest poverty rate (12.6 percent) among adults. Each day over 5,000 persons reach the age of 65; this represents a net increase of over a half-million each year. At a time of increasing numbers of older persons, particularly the very old, combined with proposed cuts in many federal programs that directly and indirectly benefit the elderly, cities are being asked to assume increased responsibilities.

ARTS AND HUMANITIES

National Endowment for the Arts (NEA)

The FY88 Administration budget request for the National Endowment for the Arts is $145.2 million. The request is $19.9 million, or 12 percent, less

than the $165.1 million in funds appropriated by Congress in FY87. Programs in the NEA of special interest and support to cities are the Design Arts Program, the Visual Arts Program, and the Local Programs, which help to support local arts agencies.

National Endowment for the Humanities (NEH)

The National Endowment for the Humanities supports research, scholarship, education, and general audience programs in the humanities. The Administration's FY88 budget request is $126.89 million, or $15.6 million (10.9 percent), less than the Congressional FY87 appropriation of $142.49 million. NEH programs of importance to cities include humanities instruction in elementary schools, secondary schools, and institutions of higher learning, many of which are in cities; fellowships and seminars for college and secondary school teachers, independent scholars, and younger scholars; public humanities projects; and humanities projects in museums, historical organizations, and libraries.

Institute of Museum Services (IMS)

The Institute of Museum Services provides funds through annual, competitive grant programs to help the nation's museums meet operating expenses and conservation needs. In its FY88 budget request, the Administration has requested $19.25 million for the IMS, a substantial increase over its $330,000 request in FY87. Still, this represents a decrease of $2 million from the FY87 Congressional appropriation of $21.25 million.

COMMUNITY DEVELOPMENT AND HOUSING

Community Development

In the Administration's FY88 proposal, Community Development Block Grants (CDBG), funded at $3 billion in FY87, would face a $375 million rescission, of current budget authority; the lower FY87 funding level produced by the rescission, $2.6 billion, is proposed again for FY88. To accompany the cut in CDBG the Administration would develop a targeting plan to direct funds to communities showing the greatest need. The budget also proposes that new housing construction be considered an eligible CDBG activity.

The budget proposes that the Urban Development Action Grant (UDAG) program be terminated. The Administration also proposes to rescind all but $20 million of the FY87 UDAG appropriation of $225 million. This would include the January metro round. The Section 312 Rehabilitation Loan and Section 108 Loan Guarantee programs are also terminated.

Housing

The Administration proposes to continue to emphasize vouchers as the "cornerstone" of its housing policy. Hence, the budget proposes to provide 99,000 additional vouchers (79,000 Housing and Urban Development vouchers and 20,000 Farmers Home Administration vouchers). In addition, the budget proposes to provide 3,000 units of new housing construction specifically for

Indians and for the elderly and handicapped. In sum, the Administration proposes to provide 102,000 additional households with subsidies in FY88.

As for public housing, the budget proposes $1 billion for modernization, and $1.462 billion for public housing operating subsidies. The Administration proposes a shift of $436.9 million of public housing modernization FY87 funds to FY88, which would result in a $1 billion program for each fiscal year. The budget also proposes that $85.3 million of appropriated public housing operating funds be shifted from FY87 to FY88. According to HUD, these shifts are not deferrals under the Impoundment Control Act. Supplemental language will be sent to Congress to request the shift of these funds.

There are a number of other rescissions of FY87 funds in the FY88 budget: 2,500 units are rescinded from the appropriated 7,500 for Section 8 Moderate Rehabilitation; the entire appropriated $99.5 million for Housing Development Grants (HoDAG) is rescinded; $125 million of the $200 million appropriated for Rental Rehabilitation is rescinded, leaving $75 million. The Rental Rehabilitation program would be funded at $75 million in FY88.

DEFENSE

Total defense spending authority would increase to $312 billion under the Administration's budget proposal for FY88, about a 3 percent increase in after-inflation dollars from the level approved by Congress for FY87. Defense spending represents 29 percent of total proposed spending for FY88. In addition, the Administration is requesting a $2.8 billion supplemental appropriation for defense in the current budget year. To accommodate the additional defense spending without increasing the FY87 budget, the Administration is proposing rescissions in non-defense program spending already appropriated for this year, including cuts in priority city programs.

DRUG CONTROL

The budget proposes sharp reductions in FY88 in the funds provided by the Anti-Drug Abuse Act of 1986 to assist state and local governments in combatting the drug epidemic: 1) No funds are included for assistance to state and local law enforcement ($225 million was authorized for this in FY87); 2) the $252 million included in the Act for research and treatment is to be spread over FY87 and FY88; and 3) $100 million is included for drug education; this is half of the FY87 level.

Funding for the Alcohol, Drug Abuse and Mental Health Block Grant will continue at the current level of $495 million.

The budget requests an additional $61.3 million to increase personnel in the Drug Enforcement Agency, the Federal Bureau of Investigation, U.S. attorneys' offices and other parts of the Department of Justice.

ECONOMIC AND BUSINESS DEVELOPMENT

A major change from previous Administration budgets is the continued funding for the Small Business Administration, although this would be at the cost of terminating the Minority Business Development Agency within the Department of Commerce. In previous years, the Administration has proposed the opposite: the consolidation of SBA's programs into MBDA. In FY88, it is proposed that MBDA's programs be consolidated into SBA's Office of Minority Small Business and Capital Ownership Development. The Administration also proposes the sale of a portion of SBA's related loans in the government's portfolio.

Once again, the Administration proposes the elimination of the Economic Development Administration. The Administration also proposes a rescission of $125 million to terminate the EDA's assistance programs this year.

The International Trade Administration, which has responsibility for trade development and administration, is to receive a slight increase in its proposed budget, while the U.S. Travel and Tourism Administration will continue to be funded at $12 million, only if new user fees are collected from the travel industry.

EDUCATION

The Administration proposes rescissions of approximately $2.5 billion in this year's $19.5 billion budget for the programs under the Department of Education, and further cuts of $3 billion in FY88. This effectively cuts the Department's budget by about one-quarter, reducing it to $14 billion in FY88. Three programs absorb the bulk of the proposed cuts. Vocational education, for which $900 million was appropriated in FY87, is proposed to be eliminated in FY88. Student financial assistance is proposed to be reduced from $5.5 billion in FY87 by a $1.3 billion rescission, and to be further reduced from this level to $3.3 billion in FY88. The Administration proposes a rescission that would cut guaranteed student loans from the estimated FY87 level of $3.3 billion to $2.7 billion, and then to reduce the program further to $1.2 billion in FY88.

EMPLOYMENT AND TRAINING

Funding for employment and training would increase to $4.4 billion in FY88 from the current level of $3.7 billion. Funding for the Job Training Partnership Act (JTPA) would be reduced to $3.4 billion in FY88, but a new propgram for displaced workers is proposed, with funding requested at $980 million. The budget proposes two new initiatives.

The first new initiative is the $980 million, redesigned worker adjustment program which would meet the needs of all dislocated workers,

regardless of their reasons for unemployment. Funding would be generated by the transfer and/or rescission of funds in Employment Services and Unemployment Insurance; also an estimated $640 million would come from new revenues.

The second requests an amendment to Title II of JTPA, replacing the current Summer Youth Employment Program with a program allowing local areas to provide additional services. These services could include a year-round training program for AFDC youth between the ages of 14 and 21. Local areas would have the option of utilizing this new program or continue with the traditional summer (II-B) program for economically disadvantaged youth. This program would be funded at $800 million, representing an increase in FY88 of $50 million over the $750 million authorized for the Summer Youth Employment Program for FY87.

A rescission of $332 million is proposed in FY87 for the Employment and Training Services function, including reductions in the Block Grant, SYEP, and the Dislocated Worker (Title III) Assistance Program.

The FY88 budget request includes $1.78 billion for the basic grants, a continuation of the FY87 dollar level.

The Job Corps program, which provides remediation and vocational skills training to disadvantaged youths between 16 and 21 years of age, would remain at approximately the current funding level ($651.7 million) in order to maintain all existing centers.

Other Programs

The Administration is requesting $200.9 million for National Programs for FY88. This would include assistance to Native Americans, migrants and seasonal farmworkers, veterans, national commissions and pilot demonstration efforts. This represents approximately $9 million less than was appropriated for FY87.

The WIN program is again slated for elimination. This program is designed to help AFDC recipients obtain employment.

The Comprehensive Community Service Employment Program would remain at the FY87 level of $326 million. This jobs program is authorized under Title V of the Older Americans Act.

The Administration proposes to eliminate all federal support for vocational education; $900 million were appropriated in FY87.

The Program Year

JTPA established a nine-month forward-funding cycle by creating a program year period which begins July 1 and ends June 30. The FY88 budget proposal for JTPA is for expenditures that will begin on July 1, 1988 and run through June 30, 1989. The newly-proposed dislocated worker program would operate on a normal fiscal year basis, as opposed to its current JTPA program year basis.

ENERGY

The Administration's FY88 budget proposal for the Department of Energy is $13.9 billion, a 10 percent increase over the FY87 budget. Actual program activity, however, is essentially unchanged, due to substantial funds that were carried over to FY87 from prior years. Budget requests for defense activities and nuclear waste activities are up slightly again this year; but programs of importance to cities are sharply curtailed, and $256.7 million in FY87 rescissions--mostly from urban programs--are being proposed to Congress.

In the research and development area, the largest cuts are in conservation research and development at $80.1 million, down from $161.1 million in FY87; solar and other renewables at $93.6 million, down from $146.5 million; and fossil energy at $169.4 million, down from $301.9 million last year. These programs also are the targets of $75.6 million in proposed rescissions for FY87.

The Administration proposes no federal funds in FY88 for the conservation grants program, which has provided funds to state and local governments to undertake energy conservation measures. The budget document notes that the states have available large sums specifically earmarked for conservation and other energy-related activities from settlement of oil pricing and allocation violations. In addition, rescission of $112.4 million in FY87 funds is proposed, thus limiting FY87 funds for this program to $134 million in non-federal funds from oil overcharge settlements.

In this year's budget document, the Administration restated last year's proposals for selling the Naval Petroleum Reserves at Elk Hills (CA) and Teapot Dome (WY) and the five power marketing administrations.

ENVIRONMENT

The Administration's budget for environmental programs, for the first time in years, calls for increases in funding for some very important programs to cities. Still, in perhaps the largest of all federal urban environmental programs - the Construction Grant Program for wastewater treatment plants - the Administration has again called for program termination by FY93. A closer look at the budget reveals:

- The Funding of Construction Grants at $12 Billion Through FY93 - This funding amount is $6 billion less than that level which would have been authorized by the Clean Water Act, pocket vetoed by the President at the close of the 99th Congress.

- Operating Program Workyears Reduced by One Percent at EPA - The EPA operating budget supports basic implementation of federal environmental programs and assistance. While most programs lose proportionally in the FY88 budget, water quality programs lose the most, with small increases proposed in pesticides and hazardous waste. In addition state and local grants for environmental programs are up $9.5 million over FY87.

- Addition of Clean Coal Technology Demonstrations and Acid Rain Research - The budget, in an effort to implement the Special Envoys' Report on Acid Rain, calls for $96.5 million in acid rain research. Included in this amount is $7 million for retrofitting coal fire burners.

- Creation of a Well Head Protection Planning Program at State Level - Included in the funding request for the implementation of the Safe Drinking Water Act is $8 million for state well head protection planning programs.

- Superfund - Under the Superfund Amendments of 1986, an independent source of funding -- the superfund environmental tax -- was legislatively created. This new funding source is expected to generate $1.6 billion in superfund revenues for FY88; this is the amount being requested by the Administration. However, the Administration's request is still $225 million less than the authorization level.

FISCAL ASSISTANCE

The Administration proposes no funding for General Revenue Sharing grants in FY88; $228,000 in outlays would be provided for staff and other expenses associated with closing down the Treasury Department's Office of Revenue Sharing. A small Interior Department program of payments-in-lieu of taxes would remain at the FY87 level of $105 million. However, the Administration is again proposing that sharing with state and local governments of receipts from mineral and timber exploitation on federal lands be on a net rather than the traditional gross basis; this change would reduce state and local receipts from $800 million in FY86 to $460 million in FY88, for a loss of about $340 million.

FOOD STAMPS AND NUTRITION

The FY88 budget proposes $11.7 billion for the Food Stamp Program, a reduction of $109 million from FY87 funding and $278 million less than provided for in current law. The Administration proposes to cut $264 million by withholding funds from states for erroneous food stamp payments. Nutrition assistance for Puerto Rico is proposed at $825 million in FY88, a reduction of $27 million from FY87, which returns the program to the level it was at when it was enacted in 1982.

Supplemental nutrition assistance for Women, Infants, and Children (WIC) is proposed at $1.7 billion, an increase of $24 million from FY87. This amount will support 3.3 million participants per month, less than the 3.4 million participating under the FY87 program. Proposed cuts in child nutrition programs total approximately $470 million below the FY87 funding level. The largest cut is in the school lunch program--from $2.8 billion in FY87 to $2.5 billion in FY88; the Administration is proposing to eliminate nutrition

subsidies for meals served to children from families with incomes above 185 percent of the poverty level. Funding proposals for other child nutrition programs are as follows: school breakfast ($454 million or $2 million more than FY87); child care feeding ($373 million, $163 million less than FY87); and summer feeding ($115 million, $12.8 million less than FY87). The Administration proposes to eliminate the special milk program ($18.3 million in FY87) and nutrition education and training ($5 million in FY87). As in past years, the FY88 budget calls for the elimination of the temporary emergency food assistance program, which is presently at $50 million.

HEALTH

The President's FY88 budget proposes large reductions in spending for federal programs affecting the health of city residents: overall, the Administration proposes a $6.7 billion reduction in major medical programs from the projected FY88 level of spending for current services. The largest federal health program, Medicare, providing health insurance for the elderly, poor and disabled, is scheduled for a $4.7 billion reduction from current services and an increase of $2.3 billion in revenue generated through legislative and regulatory initiatives. Proposed alterations for this program include increasing revenues through mandatory coverage of all state and local employees ($1.6 billion); increasing Medicare Part B premiums to 25 percent for current enrollees, 35 percent for new enrollees and 50 percent for third party payers ($571 million); and repealing provision of last year's budget law which expanded coverage to vision care, additional occupation therapies, and the services of physician assistants ($323 million).

(The budget document contains no mention of the expansion of the Medicare system to cover catastrophic health insurance, proposed last November by Department of Health and Human Services Secretary Otis Bowen in response to President Reagan's "State of the Union" address request.)

Administration proposals for Medicaid, the federal health care program for the poor, would limit federal payments to $25.4 billion in FY88, a $1.3 billion cut from current spending projections. Additionally, the President's budget would reduce spending by $360 million in FY88 through the elimination of all special matching rates for state and local administrative costs, including fraud control, and would reduce matching payments for excessively high administrative costs. The Administration proposes to undertake a new $85 million initiative to reduce infant mortality through demonstration and waiver projects to provide comprehensive case management to pregnant women, including teenagers.

Funding for AIDS research and education is requested at a $534 million level, a $118 million increase (28 percent) over the FY87 amount. Funding for major block grants (Maternal and Child Health, Community Centers and Preventive Health Services) are retained at their FY87 levels ($478 million, $400 million and $90 million, respectively). In addition, the Administration's budget would rescind $74 million in FY87 funds for the care of "high income" non-service-disabled veterans.

HUMAN SERVICES

In the Administration's FY88 budget request, a variety of social service programs, including Head Start, child welfare and Older Americans Act programs would be combined in a "generic appropriation request" for social services discretionary programs of $2.2 billion, $69 million below the FY87 level for these programs. The FY88 budget published by the U.S. Department of Health and Human Services explains that "this generic request is in no way a block grant consolidation proposal," and that funding allocations among the programs included would be made by the Department. Several discretionary programs now under family social services would be transferred to the generic appropriation, leaving only the foster care and adoption assistance entitlements in that category.

Supplemental funds of $165 million are requested for family social services for FY88; all but $43 million of these funds would come from other programs, including aging research, child welfare services and the Social Services Block Grant. Funding for the Social Services Block Grant is requested at $2.7 billion, the FY87 level.

Both the Legal Services Corporation and the Work Incentive Program are slated for elimination in FY88. FY88 funding of $310 million, $58 million below the FY87 level, is proposed for the Community Services Block Grant, to begin a phase-out of the program, according to the budget document.

Homelessness

For the first time the Administration proposes funding that relates to homelessness. For FY87 Congress appropriated $70 million for the Emergency Food and Shelter Program administered by the Federal Emergency Management Agency; the Administration proposes $80 million for this program in FY88. In FY87 Congress also provided $10 million for a shelter rehabilitation program administered by the Department of Housing and Urban Development; the Administration requests no funds for this program in FY88. The transitional housing demonstration program, funded by Congress at $5 million in FY87, would be continued at its current level in FY88. Funds for the National Institute of Mental Health's Community Support Program would increase, with $20 million to be available (a $5 million increase over FY87) for demonstrations that provide mental health services to the homeless mentally ill.

IMMIGRATION REFORM

The FY88 budget includes funding to implement the Immigration Reform and Control Act, passed by the 99th Congress. This landmark immigration bill legalizes certain illegal aliens; reimburses state and local governments for four years for the cost of providing benefits to those legalized through the bill; prohibits the hiring of illegal aliens; establishes a special legalization program for foreign agricultural workers; and increases border enforcement. The Administration is proposing $216.5 million for the Immigration and Naturalization Service and for other agencies of the Department of Justice to implement the new law in FY88. The budget request also includes a FY87

supplemental appropriation of $138 million for INS to start carrying out the legislation. An additional $149 million is expected to be obligated in FY87 and $181 million in FY88 from fees charged to applicants of the legalization program. The FY88 budget also includes $928 million for the Social Security Administration of the Department of Health and Human Services to reimburse states for the cost of providing financial, medical and educational assistance to newly legalized aliens.

INCOME SECURITY

While outlays for social security are estimated to increase by $12 billion to $217 billion in FY88, several income security programs which benefit the poor, including Aid to Families with Dependent Children (AFDC), Child Support Enforcement, the Low Income Home Energy Assistance Program (LIHEAP), and refugee and entrant assistance all are slated for cuts.

AFDC would be cut by $322 million below the current services level by ending caretaker benefits when the youngest child turns 16, collecting quality control disallowances prospectively from the states, and requiring single minor parents to live with their parents to be eligible for AFDC, and through a series of work and training proposals. Child Support Enforcement would be cut $146 million by reducing federal matching of administrative costs and limiting incentive payments to those states which have higher cost effectiveness ratios.

LIHEAP would be reduced by one-third to $1.2 billion, recognizing the "oil overcharge settlements available to states for these purposes," according to the budget document.

Refugee and entrant assistance would be cut by over one-fourth, from $340 million in FY87 to $253 million in FY88, with these cuts coming primarily from reimbursement to state and local governments for cash and medical assistance, social services and administrative costs.

No cuts are proposed for Supplemental Security Income. The budget proposes changes in unemployment compensation that would transfer to the states authority, financing and responsibility for administration of the state unemployment insurance and employment service systems. The budget does not include any of the Administration's welfare reform proposals.

PUBLIC SAFETY

The Administration's FY88 budget request for the Department of Justice is $5.6 billion, a seven percent increase over the FY87 level. The largest increases proposed are in the areas of immigration reform and prison expansion, but the budget contains no funds for the five programs, administered by the Office of Justice Programs, which currently provide financial assistance to state and local governments' criminal justice systems: the Juvenile Justice Program ($67.6 million), the State and Local Assistance Program ($44.4 million), the Regional Information Sharing System ($12 million), the Mariel

Cuban grant program ($5 million) and the State and Local drug enforcement grants authorized under the Anti-Drug Abuse Act of 1986 ($225 million). The combined budget request for the National Institute of Justice and the Bureau of Justice Statistics is $42.4 million, eight million dollars over FY87 levels. Funding for other programs of the Office of Justice Programs would remain at current levels: $4 million for the missing and exploited children program; $10 million for the public safety officers' benefits program. $1.2 million is requested for the emergency assistance program. DOJ's FY88 budget request includes $1.5 billion for the Federal Bureau of Investigation, a $181 million increase over FY87. An increase of $32 million, or a total of $522 million, is proposed for the Drug Enforcement Administration.

The FY88 budget request for emergency management planning and assistance activities, administered by the Federal Emergency Management Agency, is $276.8 million, a $15 million increase over FY87 levels.

TRANSPORTATION

The Administration's proposed FY88 transportation budget, much like those rejected by Congress in the past, calls for large scale reductions in transportation programs vital to cities. The budget provides no general funds for highway and mass transit and at the same time imposes a $600-million-a-year tax on state and local governments to fund the remaining programs. This tax would be in the form of a nine-cent-per-gallon tax on gas. State and local governments are currently exempt from paying the gas tax.

Specifically the president's budget calls for the:

- Elimination of Funding for Mass Transportation - The budget proposes to eliminate funding for mass transit programs from the general fund. In order to accomplish this, the budget would eliminate the development of any new transit systems and fund those already on line at 40 percent of current levels. The source of this 40 percent would be the mass transit account of the trust fund.

- Limitation of Highway Funding to that Amount Generated by the Gas Tax - The budget states that the funds authorized for highway construction exceed the revenues generated by the gas tax, however, the Administration's figures do not include the interest generated annually by the trust fund. They feel these funds are not user fees therefore not attributable to the program.

- Increase in Federal Aviation Administration's Funding - The budget calls for an increase of $437 million for the nation's air traffic control and navigation systems, including 225 additional air traffic controllers.

- Sale of Amtrak - For the third consecutive year the budget proposes to eliminate the federal subsidy to Amtrak. This year, the additional step of selling the railroad has been added. The budgetary result of this, regardless of its likelihood of success, is that one billion new revenue dollars are credited toward deficit reduction.

VETERANS

The Veterans Administration provides wide-ranging services to the United States' 27.7 million veterans, 48.7 million members of their families, and two million survivors of deceased veterans. Its health care, pension, compensation, education, and housing assistance programs have important impacts on the economies of urban areas and the well-being of many residents of our cities. The Administration's proposed FY88 budget includes an appropriation of $27.6 billion, a two percent increase over FY87 appropriation levels. The budget includes four areas of particular interest to cities: 1) It proposes legislation increasing the loan origination fee charged on VA-guaranteed housing loans from the current one percent to 2.5 percent effective June 1, 1987; estimates indicate that this would increase the average fee from $650 to about $1,625 per mortgage. 2) The budget proposal would rescind $74 million in medical care funds already appropriated in FY87 for the care of "high income" non-service-disabled veterans. However, patients in this group would be able to receive care on a space available basis. 3) The Administration proposes to index compensation benefits--entitlements paid as either a disability benefit or a survivorship benefit--to the annual change in the Consumer Price Index. This cost-of-living increase, which would be effective with payments made in January 1988, is expected to be 3.5 percent for 1987. And, 4) the budget requests a $136 million reduction in funds for readjustment benefits for dependents and Vietnam-era veterans. This reduction is based on an estimated 22 percent decline in the Vietnam-era veterans and dependent caseload.